

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Schoolcraft Township	County Houghton
Fiscal Year End March 31, 2006	Opinion Date September 8, 2006	Date Audit Report Submitted to State September 20, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|---|-------------------------------------|---|
| 1. <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA			Telephone Number (906) 337-2727	
Street Address 116 Fifth Street			City Calumet	State MI
Authorizing CPA Signature <i>Jackie A. Aalto</i>			Printed Name Jackie A. Aalto	Zip 49913
			License Number 1101022394	

SCHOOLCRAFT TOWNSHIP, MICHIGAN
Houghton County

FINANCIAL REPORT

Year Ended March 31, 2006

SCHOOLCRAFT TOWNSHIP, MICHIGAN
FINANCIAL REPORT
Year Ended March 31, 2006

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis	10
Statement of Activities – Modified Cash Basis	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet – Modified Cash Basis	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis	13
Fiduciary Funds:	
Statement of Net Assets – Modified Cash Basis	14
Notes to Financial Statements	15
Required Supplementary Information:	
Budgetary Comparison Schedule – Modified Cash Basis – General Fund	25
Budgetary Comparison Schedule – Modified Cash Basis – Cemetery Operating Fund	26
Budgetary Comparison Schedule – Modified Cash Basis – Garbage Receiving Fund	27
Other Supplementary Information:	
Fiduciary Funds:	
Combining Statement of Net Assets – Modified Cash Basis	29

INDEPENDENT AUDITOR'S REPORT

Board Members
Schoolcraft Township, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Schoolcraft Township, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Schoolcraft Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note I-C, Schoolcraft Township, Michigan prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.


In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Township, Michigan, as of March 31, 2006, and the respective changes in financial position – modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note I-C.

As described in Note I, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of March 31, 2006.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 25 through 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schoolcraft Township, Michigan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Jackie A. Aalto, CPA

Calumet, Michigan
September 8, 2006

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

The management of Schoolcraft Township, Michigan ("the Township") offers readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of this fiscal year by \$860,210 (net assets) all of which are represented by governmental activities.
- The Township's total net assets increased by \$5,922.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

If applicable, the government-wide financial statements would distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, recreation and culture, and cemetery operations. The Township has no business-type activities.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Cemetery Operating, Garbage Receiving and Cemetery Perpetual Care Trust Funds, all of which are considered to be major funds. Data from the other governmental fund is reported as a nonmajor governmental fund.

The Township adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison statements have been provided for the General Fund and each major special revenue fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 and 13 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs.

The basic fiduciary fund financial statement can be found on page 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 - 23 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that explains and supports the information presented in the financial statements. This information can be found on pages 25 – 27 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceed liabilities by \$860,210 at the close of the most recent fiscal year.

A large portion of the Township's net assets (60%) reflects its investment in capital assets (e.g., land, buildings, land improvements, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The Township has no debt. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Schoolcraft Township, Michigan's Net Assets (in thousands of dollars)

	<u>Governmental Activities</u>
Current and other assets	\$ 350.1
Capital assets	<u>511.7</u>
Total Assets	<u>861.8</u>
Other liabilities	<u>1.6</u>
Total Liabilities	<u>1.6</u>
Net Assets:	
Invested in capital assets, net of related debt	511.7
Unrestricted	<u>348.5</u>
Total Net Assets	<u>\$ 860.2</u>

The remaining balance of *unrestricted net assets* (40% or \$348,536) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in its categories of net assets.

The Township's net assets have increased by \$5,922 during the current fiscal year, all of which is the result of governmental activities. Key elements are as follows:

Schoolcraft Township, Michigan's Changes in Net Assets
(in thousands of dollars)

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 97.2
Operating grants & contributions	4.2
Capital grants & contributions	10.3
General revenues:	
Property taxes	37.8
State-shared revenues	52.8
Interest	<u>6.8</u>
Total Revenues	<u>209.1</u>
Expenses:	
General government	90.0
Public safety	8.0
Public works	62.1
Recreation & culture	23.2
Cemetery	<u>19.9</u>
Total Expenses	<u>203.2</u>
Change in net assets	5.9
Net Assets – Beginning	<u>854.3</u>
Net Assets – Ending	<u><u>\$ 860.2</u></u>

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$348,536. Approximately 57% of this total amount (\$197,725) constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, the fund balance of the General Fund was \$109,255, of which \$104,125 was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare the total unreserved fund

balance to total fund expenditures. Unreserved, undesignated fund balance represents 83% of total General Fund expenditures.

The fund balance of the Township's General Fund has decreased by \$3,985 during the current fiscal year.

General Fund Budgetary Highlights

During the year there were no changes in total appropriations between the original and final amended budget.

Capital Assets

The Township's investment in capital assets for its governmental as of March 31, 2006, amounts to \$511,674 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, equipment, and park facilities. There were no significant capital asset purchases during the current year.

Schoolcraft Township, Michigan's Capital Assets (net of depreciation) (in thousands of dollars)

	<u>Governmental Activities</u>
Land	\$ 443.2
Buildings & improvements	18.7
Land improvements	27.9
Vehicles & equipment	<u>21.9</u>
Total Assets	<u>\$ 511.7</u>

Additional information on the Township's capital assets can be found in Note IV on page 20 of this report.

Request for Information

This financial report is intended to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Schoolcraft Township, 226 Front Street, Lake Linden, Michigan 49945.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Statement of Net Assets – Modified Cash Basis

March 31, 2006

	<u>Governmental Activities</u>
Assets	
Cash	\$ 205,609
Investments	144,527
Capital assets not being depreciated	443,210
Capital assets being depreciated, net	<u>68,464</u>
 Total Assets	 <u>861,810</u>
 Liabilities	
Intergovernmental payable	<u>1,600</u>
 Net Assets	
Invested in capital assets, net of related debt	511,674
Unrestricted	<u>348,536</u>
 Total Net Assets	 <u>\$ 860,210</u>

The notes to the financial statements are an integral part of this statement.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended March 31, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
General government	\$ 89,988	\$ 14,064	\$ 3,788	\$	\$ (72,136)
Public safety	8,030		385		(7,645)
Public works	62,149	56,727			(5,422)
Recreation & culture	23,174			10,288	(12,886)
Cemetery	<u>19,864</u>	<u>26,390</u>	<u></u>	<u></u>	<u>6,526</u>
Total governmental activities	<u>\$ 203,205</u>	<u>\$ 97,181</u>	<u>\$ 4,173</u>	<u>\$ 10,288</u>	<u>(91,563)</u>
General revenues:					
					37,847
					52,815
					<u>6,823</u>
					<u>97,485</u>
Change in net assets					
					5,922
					<u>854,288</u>
					<u>\$ 860,210</u>

The notes to the financial statements are an integral part of this statement.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Balance Sheet – Modified Cash Basis Governmental Funds

March 31, 2006

	<u>General</u>	<u>Cemetery Operating</u>	<u>Garbage Receiving</u>	<u>Cemetery Perpetual Care Trust</u>	<u>Nonmajor Governmental Fund Liquor</u>	<u>Total Governmental Funds</u>
Assets						
Cash	\$ 105,725	\$ 10,232	\$ 74,776	\$ 14,728	\$ 148	\$ 205,609
Investments	5,130			139,397		144,527
Due from other funds	<u> </u>	<u>8,444</u>	<u> </u>	<u> </u>	<u> </u>	<u>8,444</u>
Total Assets	<u>\$ 110,855</u>	<u>\$ 18,676</u>	<u>\$ 74,776</u>	<u>\$ 154,125</u>	<u>\$ 148</u>	<u>\$ 358,580</u>
Liabilities and Fund Balances						
Liabilities						
Intergovernmental payable	\$ 1,600	\$	\$	\$	\$	\$ 1,600
Due to other funds	<u> </u>	<u> </u>	<u> </u>	<u>8,444</u>	<u> </u>	<u>8,444</u>
Total Liabilities	<u>1,600</u>	<u> </u>	<u> </u>	<u>8,444</u>	<u> </u>	<u>10,044</u>
Fund Balances						
Reserved for:						
Building	2,500					2,500
Parks & recreation	2,630					2,630
Perpetual care				145,681		145,681
Unreserved, undesignated reported in:						
General fund	104,125					104,125
Special revenue funds	<u> </u>	<u>18,676</u>	<u>74,776</u>	<u> </u>	<u>148</u>	<u>93,600</u>
Total Fund Balances	<u>109,255</u>	<u>18,676</u>	<u>74,776</u>	<u>145,681</u>	<u>148</u>	348,536
Total Liabilities and Fund Balances	<u>\$ 110,855</u>	<u>\$ 18,676</u>	<u>\$ 74,776</u>	<u>\$ 154,125</u>	<u>\$ 148</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>511,674</u>
---	----------------

Net assets of governmental activities	<u>\$ 860,210</u>
---------------------------------------	-------------------

The notes to the financial statements are an integral part of this statement.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds**

Year ended March 31, 2006

	<u>General</u>	<u>Cemetery Operating</u>	<u>Garbage Receiving</u>	<u>Cemetery Perpetual Care Trust</u>	<u>Nonmajor Governmental Fund Liquor</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 37,847	\$	\$	\$	\$	\$ 37,847
Licenses & permits	1,930					1,930
Intergovernmental						
Federal	10,288					10,288
State	56,603				385	56,988
Charges for services	8,714	23,827	55,287			87,828
Interest & rents	3,188	46	1,055	4,024		8,313
Other	<u>3,370</u>	<u>2,563</u>				<u>5,933</u>
Total Revenues	<u>121,940</u>	<u>26,436</u>	<u>56,342</u>	<u>4,024</u>	<u>385</u>	<u>209,127</u>
Expenditures						
Current						
General government	76,987	1,350	2,000			80,337
Public safety	7,500				530	8,030
Public works	12,420		47,820			60,240
Recreation & culture	20,867					20,867
Cemetery		19,864				19,864
Other	<u>8,001</u>					<u>8,001</u>
Total Expenditures	<u>125,775</u>	<u>21,214</u>	<u>49,820</u>		<u>530</u>	<u>197,339</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,835)</u>	<u>5,222</u>	<u>6,522</u>	<u>4,024</u>	<u>(145)</u>	<u>11,788</u>
Other Financing Sources (Uses)						
Transfers in		8,444			150	8,594
Transfers out	<u>(150)</u>			<u>(8,444)</u>		<u>(8,594)</u>
Total Other Financing Sources (Uses)	<u>(150)</u>	<u>8,444</u>		<u>(8,444)</u>	<u>150</u>	
Net Change in Fund Balances	<u>(3,985)</u>	<u>13,666</u>	<u>6,522</u>	<u>(4,420)</u>	<u>5</u>	<u>11,788</u>
Fund Balances – Beginning	<u>113,240</u>	<u>5,010</u>	<u>68,254</u>	<u>150,101</u>	<u>143</u>	
Fund Balances – Ending	<u>\$ 109,255</u>	<u>\$ 18,676</u>	<u>\$ 74,776</u>	<u>\$ 145,681</u>	<u>\$ 148</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

(5,866)

Change in net assets of governmental activities

\$ 5,922

The notes to the financial statements are an integral part of this statement.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

**Statement of Net Assets – Modified Cash Basis
Fiduciary Funds**

March 31, 2006

Assets	<u>Agency Funds</u>
Cash	<u>\$ 7,962</u>
 Liabilities	
Intergovernmental payable	<u>\$ 7,962</u>

The notes to the financial statements are an integral part of this statement.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Note I – Summary of Significant Accounting Policies

Schoolcraft Township, Michigan (“the Township”) was organized in 1866 and is located in Houghton County, Michigan. The Township operates under an elected board of trustees consisting of five members including a supervisor, clerk, treasurer and two trustees. Services provided to the residents include fire protection, solid waste disposal, recreation and community enrichment. Except for the use of a modified cash basis of accounting as described in Note I-C, the accounting policies of Schoolcraft Township, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Schoolcraft Township, Michigan:

Implementation of GASB Statement No. 34

The aspects of financial statement content and format, as prescribed by Governmental Accounting Standards Board (“GASB”) Statement No. 34 have been implemented in the financial statements, effective for the year ended March 31, 2006.

The primary changes from the prior years’ financial presentations include:

- A new format for the Township’s basic financial statements including fund financial statements, with emphasis on major funds, for governmental activities.
- The reporting of budget and actual information for the General Fund and each major special revenue fund in a new format as required supplementary information.

A. Financial Reporting Entity

In determining the financial reporting entity, the Township complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential component units (traditionally separate reporting entities) that the Township may be financially accountable and, as such, should be included within the Township’s financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Township has no proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements, and the fund financial statements and governmental activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, and a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for the fiduciary fund type would use the accrual basis of

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

accounting. The government-wide financial statements would be presented on the accrual basis of accounting.

The Township reports the following major governmental fund:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Cemetery Operating Fund* accounts for operations of the Township's cemeteries.

The *Garbage Receiving Fund* accounts for the activities of the Township's solid waste removal operations.

The *Cemetery Perpetual Care Trust Fund* accounts for the sale of perpetual care on cemetery lots, where only the earnings, and not the principal, may be used for cemetery operations.

Additionally, the Township reports the Liquor Fund as a nonmajor governmental fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Bank Deposits – The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. The Township has no short-term investments.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Investments – Investments classified in the financial statements are stated at fair value.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on December 1st and are due and payable on or before February 14th of the following calendar year. The Township bills and collects its own taxes. Unpaid delinquent real property taxes are collected by the County. Unpaid personal property taxes are collected by the Township.

The 2005 taxable valuation of the Township totaled \$24,325,170, on which ad valorem taxes levied consisted of 1.2815 mills for operating purposes which resulted in \$31,131. This amount is recorded in the General Fund.

Capital Assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are generally defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 to 50 years
Land improvements	20 to 40 years
Vehicles and equipment	3 to 25 years

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note II – Stewardship, Compliance, and Accountability

Budgetary Information

The Township is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in governmental funds.

Note III – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority. The Township has designated three banks for the deposit of Township funds.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of March 31, 2006, \$5,591 of the Township's bank balance of \$205,591 was exposed to custodial credit risk because it was uninsured and uncollateralized.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

As of March 31, 2006, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Cost</u>
Government & agency securities – FHLM	\$ 93,800	\$ 100,000
Asset & mortgage backed securities:		
GNMA	26,297	30,086
FLMC	19,300	20,200
Certificate of deposit	<u>5,130</u>	<u>5,130</u>
	<u>\$ 144,527</u>	<u>\$ 155,416</u>

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments. As of March 31, 2006 none of the investments were exposed to custodial credit risk.

Note IV – Capital Assets

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 443,210	\$ _____	\$ _____	\$ 443,210
Capital assets being depreciated:				
Buildings & improvements	49,375			49,375
Land improvements	37,152			37,152
Vehicles & equipment	<u>40,605</u>	<u> </u>	<u> </u>	<u>40,605</u>
Total capital assets being depreciated	<u>127,132</u>	<u> </u>	<u> </u>	<u>127,132</u>
Accumulated depreciation for:				
Building & improvements	(29,413)	(1,225)		(30,638)
Land improvements	(7,715)	(1,497)		(9,212)
Vehicles & equipment	<u>(15,674)</u>	<u>(3,144)</u>	<u> </u>	<u>(18,818)</u>
Total accumulated depreciation	<u>(52,802)</u>	<u>(5,866)</u>	<u> </u>	<u>(58,668)</u>
Total capital assets being depreciated, net	<u>74,330</u>	<u>(5,866)</u>	<u> </u>	<u>68,464</u>
Governmental activities capital assets, net	<u>\$ 517,540</u>	<u>\$ (5,866)</u>	<u>\$ _____</u>	<u>\$ 511,674</u>

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:	
General government	\$ 1,650
Public works	1,909
Recreation & culture	<u>2,307</u>
Total depreciation expense - governmental activities	<u>\$ 5,866</u>

Note V – Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of March 31, 2006 was as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Cemetery Operating	Cemetery Perpetual Care Trust	<u>\$ 8,444</u>

Interfund transfers:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Liquor Fund	General Fund	\$ 150
Cemetery Operating Fund	Cemetery Perpetual Care Trust Fund	<u>8,444</u>
		<u>\$ 8,594</u>

Interfund balances represent routine and temporary cash flow assistance until funds are transferred.

Note VI – Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Note VII – Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any, to be immaterial.

Note VIII – Employee Retirement

The Township contributes to a defined contribution pension plan in lieu of funding Social Security in accordance with IRS approval.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the Township, all elected officials are eligible under the plan. Contributions made by an employee or the Township vest 100% immediately. An employee that leaves the employment of the Township is entitled to his or her contributions and the Township's contributions in the form of a retirement benefit that can be provided by his accrued benefit under that given annuity contract. The Township currently contributes 6.2% of wages paid. Participants under the plan voluntarily contribute 6.2% of wages to their respective account.

The Township's pension expense amounted to \$2,490 for the year ended March 31, 2006.

The Township's defined contribution plan held no securities of Schoolcraft Township or other related parties during the year.

Note IX – Jointly Governed Organizations

Schoolcraft/Torch Lake Garbage & Refuse Collection – Schoolcraft Township operates a joint garbage collection venture with Torch Lake Township. The financial information related to this joint venture is reported by Torch Lake Township. Schoolcraft Township reimburses Torch Lake Township for its share of the garbage collection operations, which approximates 28%. These costs are recorded in the Garbage Receiving Fund.

SCHOOLCRAFT TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2006

Torch Lake Area Sewage Authority – The Township in conjunction with the Village of Lake Linden, Osceola Township, Torch Lake Township, and the County of Houghton created the Torch Lake Area Sewage Authority (TLASA). The Authority board has control over its budgeting and financing obligations. The Authority was formed to acquire, own, improve, enlarge, extend and operate a sewage disposal system. The TLASA has a contract payable due to Houghton County (general obligator) for payment of principal and interest on the bonds used to finance the system. Residents within the Authority’s boundaries are charged user fees which are collected by a third party (independent water company) and remitted to the Authority. In addition, Schoolcraft Township assesses the users within its designated areas, additional fees to help pay for debt service cost of TLASA. The financial information related to TLASA is available at the Sewer Authority building in Lake Linden, Michigan.

Torch Lake Area Fire Protection Authority – The Village of Lake Linden, Osceola Township, Schoolcraft Township and Torch Lake Township created the Torch Lake Area Fire Protection Authority (TLAFPA). The Authority board has control over its budgeting and financing obligations. The Authority was formed to acquire, own, improve, enlarge, extend and operate a water supply system for fire protection. Each municipality is obligated to pay an equal share of the expenses. The amount of the installments is determined by the Board. The financial information related to TLAFPA is available at the office of the Clerk in the Village of Lake Linden, Michigan.

Required Supplementary Information

SCHOOLCRAFT TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year Ended March 31, 2006**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 113,240	\$ 113,240
Resources (Inflows):		
Taxes	35,890	37,847
Licenses & permits		1,930
Intergovernmental:		
Federal	10,300	10,288
State	50,000	56,603
Charges for services	3,500	8,714
Interest & rents	4,370	3,188
Other revenue	<u>4,700</u>	<u>3,370</u>
Amounts Available for Appropriation	<u>222,000</u>	<u>235,180</u>
Charges to Appropriations (Outflows):		
General government	81,630	76,987
Public safety	7,840	7,500
Public works	18,850	12,420
Recreation & culture	29,125	20,867
Other	11,200	8,001
Transfers to other funds	<u> </u>	<u>150</u>
Total Charges to Appropriations	<u>148,645</u>	<u>125,925</u>
Ending Budgetary Fund Balance	<u>\$ 73,355</u>	<u>\$ 109,255</u>

SCHOOLCRAFT TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Cemetery Operating Fund
Year Ended March 31, 2006**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 5,010	\$ 5,010
Resources (Inflows):		
Charges for services	18,480	23,827
Interest	10	46
Other		2,563
Transfers in from other funds	<u>12,500</u>	<u>8,444</u>
Amounts Available for Appropriation	<u>36,000</u>	<u>39,890</u>
Charges to Appropriations (Outflows):		
General government	1,500	1,350
Cemetery	<u>29,490</u>	<u>19,864</u>
Total Charges to Appropriations	<u>30,990</u>	<u>21,214</u>
Ending Budgetary Fund Balance	<u>\$ 5,010</u>	<u>\$ 18,676</u>

SCHOOLCRAFT TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Garbage Receiving Fund
Year Ended March 31, 2006**

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 68,254	\$ 68,254	\$ 68,254
Resources (Inflows):			
Charges for services	47,525	47,525	55,287
Interest	<u>900</u>	<u>900</u>	<u>1,055</u>
Amounts Available for Appropriation	<u>116,679</u>	<u>116,679</u>	<u>124,596</u>
Charges to Appropriations (Outflows):			
General government	2,000	2,000	2,000
Public works	<u>52,400</u>	<u>56,500</u>	<u>47,820</u>
Total Charges to Appropriations	<u>54,400</u>	<u>58,500</u>	<u>49,820</u>
Ending Budgetary Fund Balance	<u>\$ 62,279</u>	<u>\$ 58,179</u>	<u>\$ 74,776</u>

Other Supplementary Information

SCHOOLCRAFT TOWNSHIP, MICHIGAN

**Combining Statement of Net Assets – Modified Cash Basis
Fiduciary Funds
March 31, 2006**

	<u>Agency Funds</u>		
	<u>Current Tax</u>	<u>Delinquent Tax</u>	
	<u>Account</u>	<u>Account</u>	<u>Total</u>
Assets			
Cash	<u>\$ 7,683</u>	<u>\$ 279</u>	<u>\$ 7,962</u>
 Liabilities			
Intergovernmental payable	<u>\$ 7,683</u>	<u>\$ 279</u>	<u>\$ 7,962</u>

September 8, 2006

To the Board Members
Schoolcraft Township, Michigan

In planning and performing my audit of the financial statements of Schoolcraft Township, Michigan for the year ended March 31, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in approving accounting procedures and controls.

Reportable Condition

1. The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions.

Other Comments and Recommendations

2. The financial statements of the Township are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I recommend that the financial statements be prepared on the basis of accounting required by accounting principles generally accepted in the United States of America.
3. At March 31, 2006 the Township's primary government had \$205,591 in deposits, of which \$5,591 was uninsured. I recommend that the Township review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the March 31, 2006 financial statements, and this report does not affect my report on those financial statements dated September 8, 2006. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Jackie A. Aalto